

Press Release

CIMECHEL ELECTRIC PRIVATE LIMITED (ERSTWHILE CIMECHEL ELECTRIC COMPANY)

August 19, 2023



| Product | Quantum (Rs. Cr) | Rating Reaffirmed Long Term Rating | Short Term Rating |
|------------------------------------|------------------|--|------------------------|
| Bank Loan Ratings | 33.10 | ACUITE BBB- Stable Reaffirmed Negative to Stable | - |
| Bank Loan Ratings | 61.90 | - | ACUITE A3 Reaffirmed |
| Total Outstanding Quantum (Rs. Cr) | 95.00 | - | - |

Rating Rationale

Acuite has reaffirmed the long-term rating of 'ACUITE BBB-' (read as ACUITE triple B minus) on the Rs. 33.10 Cr. long-term bank facilities and a short-term rating of 'ACUITE A3' (read as ACUITE A three) on the Rs.61.90 Cr. short-term bank facilities of Cimechel Electric Private Limited. (erstwhile Cimechel Electric Company) (CEPL). The outlook has been revised from 'Negative' to 'Stable'.

Rationale for rating and revision in Outlook

The rating reaffirmation continues to draw comfort from CEPL's long track record of operations of over two decades, experienced management and moderate financial risk profile. Despite additions of debt, company's financial risk profile has improved and remained moderate with debt-to-equity ratio at 1.19 times as on March 31, 2023 (Provisional.). Further, Interest coverage ratio and DSCR improved to 3.03 times in FY2023(Provisional.) against 2.72 times in FY2022 and 2.42 times in FY2023(Provisional.) against 2.34 times in FY2022 respectively.

Acuite has revised CEPL's outlook from 'Negative' to 'Stable' owing to improvement in its operating performance, and improved liquidity profile during FY20223 (Provisional.). The revenues improved by nearly 35% YoY at ~Rs. 132 Cr in FY2023(Provisional) against ~Rs. 99 Cr in FY2022 while also recording an improvement in its operating profits marked by EBITDA margins of 9.19 percent in FY2023(Provisional) against 7.78 percent in FY2022. Further, the company has reported an improvement in its liquidity profile reflected in an adequate cushion between NCA and its repayment obligations. Additionally, the working capital limits remained moderately utilised at 75% for the last six months ended May-23.

However, stretched working capital cycle, susceptibility of profitability to fluctuations in input cost and tender-based nature of business continues to constrain the rating of the company. Although the company's current unexecuted order book stands at a healthy level of ~Rs. 336 Cr, major contribution is from Electricity Discoms and pace of order execution and timely recovery from discoms will remain key monitorable.

About the Company

Mumbai-based, CEPL was established as a partnership firm in 1992 and its constitution was changed to private limited company in 2021. The company, which started its commercial operations in 1998, is engaged in EPC contracting-overhead electrification for PSUs. The directors of the company are Mr. Viren Shah and Mrs. Jyoti Shah, along with Mr. Saumil Shah. CEPL primarily caters to Indian railways including- Central Railways, Western Railways, and Central Organization for Railway Electrification (CORE). Company is also involved in rural electrification projects for Madhya Pradesh government electrification services for Discoms. The company offers services in Maharashtra, Madhya Pradesh, Gujarat, Rajasthan, Punjab, Haryana, Orissa, Jharkhand, etc. to name a few.

Analytical Approach

Acuité has taken a standalone view of the business and financial risk profile of CEPL to arrive at the rating.

Key Rating Drivers

Strengths

Long track record of operations and experienced management

CEPL is in the business since more than 20 years and is promoted by Mr. Viren Shah and Mrs. Jyoti Shah, who have around four decades of experience in the said line of business. Mr. Viren Shah has been associated with his family business 'Cimechel Engineering', which is also engaged in overhead electrification. During FY15 and FY16, CEPL (erstwhile Cimechel Electric Company) had done rural electrification under Deendayal Upadhyaya Gram Jyoti Yojana Scheme for the Madhya Pradesh government. Further, the business is currently managed by the next generation, Mr. Saumil Shah who has an experience of around 10 years. The extensive experience, coupled with a long track record of operations, has enabled CEPL to forge healthy relationships with customers and suppliers. CEPL caters to PSUs like Central Railways, Western Railways, etc. and offers services in Maharashtra, Gujarat, Rajasthan, Punjab, Haryana, Orissa, Jharkhand, etc. to name a few. Further, during FY2023 CEPL has also diversified into electrification projects for Discoms which includes an order of around Rs.~165 Cr. from MP Madhya Kshetra Vidyut Vitaran Company Ltd. marking a healthy order book for CEPL at around Rs.336 Cr. as on June-23.

Acuité believes that CEPL is expected to benefit from its established presence in the aforementioned industry and the directors' demonstrated ability to run the operations across various cycles.

Improved operating performance

CEPL reported improved operating performance in FY2023 marked by increased revenues at Rs. 131.85 Cr. during FY2023(Provisional.) against Rs. 98.87 Cr. in FY2022. CEPL's operating performance during last two years were sharply impacted by Covid-19 and lesser orders from Railways. However, during FY2023(Provisional.) company has recorded a growth of over 33% over the previous year. The operating margins stood improved at 9.19 percent in FY2023(Provisional.) against 7.78 percent in FY2022. The improvement in margins is contributed by reduced overall employee and admin expenses. However, going forward, margins are expected to remain in the range of 8-9 percent as the company has to work with Railway approved list of suppliers and hence there is a limited scope for earning margins. Further, on PAT levels as well, the company has been reporting a sequential improvement in margins at 4.40 percent in FY2023(Provisional.) against 3.98 percent during FY2022 and 3.27 percent in FY2021. The company currently has around Rs. 336 Cr worth of pending orders expected to be executed in next two years showing a medium-term revenue visibility.

Acuité believes timely execution of the pending orders whilst maintaining its profitability will remain critical for CEPL.

Moderate financial risk profile

CEPL has a moderate financial risk profile marked by moderate gearing, and adequate debt protection metrics. The company's net worth as on March 31, 2023 (Provisional) stood improved at Rs.27.60 Cr. against Rs. 21.79 Cr. on March 31, 2022. Debt to equity ratio of the company, as on March 31, 2023 (Provisional) stood at 1.19 times against 1.02 times in the earlier year due to additional term loans availed during FY2023. The total debt of Rs.32.96 Cr, as of March 2023 comprises of long-term debt of Rs. 10.49 Cr, USL of Rs. 12.16 Cr. and short-term borrowing of Rs.10.31 Cr. Further, Interest coverage ratio in FY2023 stood improved despite the additional debt, at 3.03 times against 2.72 times in FY2022 and debt service coverage ratio (DSCR) during the same period stood at 2.42 times against 2.34 times respectively.

Acuité believes that the financial risk of the company is expected to remain moderate over the medium term on account of additional debt availed by the company.

Weaknesses

Further elongation in the working capital cycle

CEPL's working capital cycle is intensive in nature marked by higher GCA days. The same has further elongated to 167 days in FY2023 (Provisional.) against 156 days FY2022. The GCA is dominated by increased inventory days of around 118 against 91 days in FY2022. The collections are relatively quicker as the company has been dealing with Indian railways wherein billing cycle is regular, and payment is released within 10-15 days once the bill is issued. The debtor days for FY2023 (Provisional.) stood at 13 against 10 in FY2022. However, going forward, company has diversified its business and has received an order from MP Madhya Kshetra Vidyut Vitaran Company Ltd. Timely recovery of the bills charged to the Discom will remain critical towards the working capital cycle. Further, for railway projects, the company has to make 100 percent advance payments before dispatch to its suppliers which increases its dependency of bank borrowings. The average fund-based bank limit utilization during the six months through June 2023 stood utilised at over 75 per cent. Any further stretch in the working capital cycle will remain a key rating sensitivity.

Profitability susceptible to fluctuations in input cost and tender-based business

The input costs i.e. power cost, labour cost and raw materials - iron, steel and cement are highly volatile in nature. Hence, any adverse movement in input costs can impact the profitability. Further, CEPL's nature of business is tender based and the company faces intense competition in the industry. CEPL's success ratio of winning the bids is to the tune of 60-70 per cent. The company generates its major revenue from railway projects which increases the customer concentration risk. However, the government's focus on achieving full electrification of railway tracks and implementation of solar-powered electricity would provide good revenue support to the players like CEPL in the medium to long run.

Rating Sensitivities

- Ability to scale up the operations thereby maintaining profitability.
- Any further stretch in the working capital cycle.
- Timely execution of the orders in hand and timely recovery of the collections.

Material covenants

None

Liquidity Position

Adequate

The liquidity of the company is adequate. The NCA stood at Rs. 6.44 Cr. during FY2023(Provisional.) against obligations of around Rs. 0.30 Cr. However, during the current year CEPL has availed term loans to the tune of Rs. 5.78 Cr. and going forward the yearly obligations are expected at around Rs. 3-3.5 Cr. against the cash accruals of around Rs. 8-10 Cr. The company's working capital cycle is intensive marked by longer GCA of 167 days in FY2023(Provisional.) against 156 days in FY2022. The GCA is majorly dominated by inventory days of 118. However, company has maintained adequate cushion against its immediate repayments (including LC) and its available cash to meet the same. As on July 2023 the immediate total LC outstanding of the company remained at around Rs. 6 Cr. while the immediate cash surplus stood at around Rs. 12.83 Cr. during the same period. Additionally, the company has unpaid receivables during the same period totalling to around Rs. 18 Cr. Further, Working capital limits have remained moderately utilized at around 75 percent for last 7 months ended May 2023.

Outlook: Stable

The outlook has been revised from 'Negative' to 'Stable' on the back of increase in the overall operating performance, improved liquidity, along with improved coverage indicators. The outlook may be revised to 'Positive' in case of improvement in the financial risk profile along with scaling up of operations while maintaining profitability. The outlook may be revised to 'Negative' in case of deterioration of revenues or elongation of the receivables affecting the working capital and liquidity profile.

Other Factors affecting Rating

Not Applicable.

Key Financials

| Particulars | Unit | FY 23 (Provisional) | FY 22 (Actual) |
|-------------------------------|---------|---------------------|----------------|
| Operating Income | Rs. Cr. | 131.85 | 98.87 |
| PAT | Rs. Cr. | 5.80 | 3.94 |
| PAT Margin | (%) | 4.40 | 3.98 |
| Total Debt/Tangible Net Worth | Times | 1.19 | 1.02 |
| PBDIT/Interest | Times | 3.03 | 2.72 |

Status of non-cooperation with previous CRA (if applicable)

India Ratings & Research vide press release dated March 21, 2023 has mentioned CEPL's rating as 'IND-RA BB- ; Issuer Not Cooperating'.

Any other information

Not Applicable.

Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Infrastructure Sector: <https://www.acuite.in/view-rating-criteria-51.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuité's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in

Rating History

| Date | Name of Instruments/Facilities | Term | Amount (Rs. Cr) | Rating/Outlook |
|-------------|--------------------------------|------------|-----------------|-------------------------------------|
| 09 Jan 2023 | Cash Credit | Long Term | 20.00 | ACUITE BBB- Negative (Reaffirmed) |
| | Term Loan | Long Term | 5.40 | ACUITE BBB- Negative (Reaffirmed) |
| | Proposed Bank Facility | Long Term | 7.60 | ACUITE BBB- Negative (Reaffirmed) |
| | Bank Guarantee | Short Term | 35.00 | ACUITE A3 (Reaffirmed) |
| | Letter of Credit | Short Term | 10.00 | ACUITE A3 (Reaffirmed) |
| | Cash Credit | Long Term | 0.10 | ACUITE BBB- Negative (Reaffirmed) |
| | Letter of Credit | Short Term | 4.00 | ACUITE A3 (Reaffirmed) |
| | Bank Guarantee | Short Term | 12.90 | ACUITE A3 (Reaffirmed) |
| 11 Oct 2021 | Letter of Credit | Short Term | 10.00 | ACUITE A3 (Reaffirmed) |
| | Cash Credit | Long Term | 5.00 | ACUITE BBB- Stable (Reaffirmed) |
| | Letter of Credit | Short Term | 3.50 | ACUITE A3 (Reaffirmed) |
| | Bank Guarantee | Short Term | 35.00 | ACUITE A3 (Reaffirmed) |
| | Bank Guarantee | Short Term | 21.50 | ACUITE A3 (Reaffirmed) |
| | Cash Credit | Long Term | 20.00 | ACUITE BBB- Stable (Reaffirmed) |
| 13 Jul 2020 | Bank Guarantee | Short Term | 56.50 | ACUITE A3 (Reaffirmed) |
| | Letter of Credit | Short Term | 13.50 | ACUITE A3 (Reaffirmed) |
| | Cash Credit | Long Term | 25.00 | ACUITE BBB- Stable (Reaffirmed) |

Annexure - Details of instruments rated

| Lender's Name | ISIN | Facilities | Date Of Issuance | Coupon Rate | Maturity Date | Complexity Level | Quantum (Rs. Cr.) | Rating |
|----------------|----------------|----------------------------------|------------------|----------------|----------------|------------------|-------------------|--|
| Bank of Baroda | Not Applicable | Bank Guarantee (BLR) | Not Applicable | Not Applicable | Not Applicable | Simple | 35.00 | ACUITE A3 Reaffirmed |
| Yes Bank Ltd | Not Applicable | Bank Guarantee (BLR) | Not Applicable | Not Applicable | Not Applicable | Simple | 12.90 | ACUITE A3 Reaffirmed |
| Bank of Baroda | Not Applicable | Cash Credit | Not Applicable | Not Applicable | Not Applicable | Simple | 20.00 | ACUITE BBB- Stable Reaffirmed Negative to Stable |
| Yes Bank Ltd | Not Applicable | Cash Credit | Not Applicable | Not Applicable | Not Applicable | Simple | 0.10 | ACUITE BBB- Stable Reaffirmed Negative to Stable |
| Bank of Baroda | Not Applicable | Letter of Credit | Not Applicable | Not Applicable | Not Applicable | Simple | 10.00 | ACUITE A3 Reaffirmed |
| Yes Bank Ltd | Not Applicable | Letter of Credit | Not Applicable | Not Applicable | Not Applicable | Simple | 4.00 | ACUITE A3 Reaffirmed |
| Not Applicable | Not Applicable | Proposed Long Term Bank Facility | Not Applicable | Not Applicable | Not Applicable | Simple | 7.60 | ACUITE BBB- Stable Reaffirmed Negative to Stable |
| Bank of Baroda | Not Applicable | Term Loan | Not available | Not available | Not available | Simple | 5.40 | ACUITE BBB- Stable Reaffirmed Negative to Stable |

Contacts

| Analytical | Rating Desk |
|---|--|
| Aditya Gupta Vice President-Rating Operations Tel: 022-49294041 aditya.gupta@acuite.in Jaitashree Hukerikar Analyst-Rating Operations Tel: 022-49294065 jaitashree.hukerikar@acuite.in | Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in |

About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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